

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
BAY STATE GAS COMPANY
D.T.E. 01-81**

RESPONDENT: Timothy Newhard

RECORD REQUEST: Department to the Attorney General

DATE: July 3, 2002

RECORD REQUEST-4 In terms of the value of assets, do you know how important Bay State is in the NiSource family?

RESPONSE: Nisource's balance sheet assets as reported for December 31, 2001 were \$17 billion. Bay State Gas Company's balance sheet assets as of that date were \$1.5 billion. Therefore Bay State Gas Company's assets are more than one-twelfth of Nisource's business.

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RECORD REQUEST DTE-5 If you can provide us with information on LDCs, and not other big companies like Enron, that have suffered devastating results in this area.. To indicate that the information about these LDCs that have had devastating effects as a result of programs similar to the GCIM before us, not because of some other reason.

RESPONSE: There appear to be few, if any cases, of LDCs that have programs that are similar to the GCIM proposed by the Company, although other Nisource LDC companies do have similar programs and also have triple-B bond ratings. Most LDC programs are more comprehensive in nature and include the capacity as well as the commodity components of gas costs and therefore are not similar mechanisms. Equally, there are few companies that are combination companies like Nisource that have LDC, pipeline, marketing, and exploration all under the same holding company structure that isolate the GCIM mechanism to ensure real saving rather than artificial "savings" construct. Ms. Bachelder recognized in her prefiled testimony, some states have terminated their "incentive" programs since they were recognized as being unbeneficial to customers. Finally, although no companies have gone bankrupt yet as the result of implementation of a gas cost incentive mechanism, several have incurred losses – some of those losses being substantial. See *e.g.* NYSEG.

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RECORD REQUEST DTE-6 Can you provide evidence to support what you said earlier, that people have been able to affect market indices?

RESPONSE: Commodity Indexes are effected by the prices that underlie those indexes. Therefore, to the extent that the commodity price is manipulated by a market player, the index will similarly be manipulated. It is generally recognized that commodity markets have always been and will continue to a certain degree to be manipulated by market players. Although certain safeguards have been but in place to mitigate some of the more egregious attempts to manipulate markets, manipulation continues today. The list of widely recognized occurrences is long and ***does not include those that have not been so widely recognized.*** The following provide a few of the more famous examples:

Grain	B.C.	Genesis Chapter 41 of The Old Testament describes Joseph's cornering of the grain market in Egypt.
Silver	1979	The Hunt Brothers cornered the market driving the price from \$10 to \$50 an ounce
US T-Notes	1991	Salomon Brothers cornered the market on two-year U.S. Treasury Notes.

Copper	1993	Sumitomo Corporation's chief copper trader had over several years worked a strategy to corner the copper market and extract huge profits.
Silver	1998	Warren Buffet bought one-quarter of the world's supply of silver causing the price to rise almost fifty percent.
Electricity	2000	Enron and many other corporations have essentially admitted to manipulating the markets for electricity in the Western United States causing the price to increase at times by a factor of ten.
Natural Gas	2002	FERC has opened Docket No. PA02-2-000 to determine whether there was manipulation of Natural Gas prices in the Western United States since January 1, 2000 in conjunction with the manipulation of the price of electricity.

These are examples where the whole market was manipulated. It should be understood that it would be *significantly easier* to manipulate a much smaller subset of that market, such as the market at a geographically specific natural gas delivery point.

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RECORD REQUEST DTE-7 To provide the data and a chart that shows the market situation as depicted in this graph contributed by the Attorney General that compares the market as a whole to the utility industry as a whole. Can you also outline the major events that were taking place in the market during this time interval?

RESPONSE: Please see Attachment 1 which compares the Dow Jones Utility Index to the Dow Jones Industrial Average for the past year. Note that on the day that Enron announced bankruptcy the Utility Index was relatively flat.

Please see Attachment 2 which notes important events on the Dow Jones Industrial Average for the years 2000 and 2001 as reported by the *Wall Street Journal*.

Please see Attachment 3 which notes important events on the Dow Jones Industrial Average for the first quarter of 2002 as reported by the *Wall Street Journal*.

Please see Attachment 4 which notes important events on the Dow Jones Industrial Average for the second quarter of 2002 as reported by the *Wall Street Journal*.